

Message Text

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USCINCEUR

USNMR SHAPE

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C O N F I D E N T I A L SECTION 1 OF 2 USNATO 5437

E.O. 11652: GDS 12-31-79

TAGS: EFIN, MCAP, NATO

SUBJECT: OFFSET REQUIREMENTS TO ELIMINATE US MILITARY BOP DEFICIT
WITH NATO IN LIGHT OF JACKSON-NUNN

STATE FOR UNDER SECRETARY CASEY.

SUMMARY: THIS MESSAGE RESPONDS TO UNDER SECRETARY CASEY'S REQUEST FOR ANALYSES SHOWING HOW MUCH NATO ALLIES WOULD HAVE TO INCREASE PERCENTAGE OF DEFENSE BUDGETS DEVOTED TO OFFSET IN ORDER TO ELIMINATE US MILITARY BOP DEFICIT IN NATO EUROPE (LESS FRANCE) AND FOR ILLUSTRATIVE MATERIAL ON THE EFFECT ON NATO COMBAT CAPABILITIES IF CURRENT OFFSET PLANS ARE NOT INCREASED AND JACKSON-NUNN IS APPLIED. MISSION HAS COMPLETED SAMPLE ANALYSES BASED ON DATA AVAILABLE HERE AND HAS REACHED THE FOLLOWING CONCLUSIONS: (1) IF GERMANS FULLY OFFSET

THEIR ACCOUNT WITH US, REMAINING EUROPEAN ALLIES LESS FRANCE WOULD HAVE TO DEVOTE 3.8 PER CENT OF THEIR AGGREGATE DEFENSE BUDGETS TO PROCUREMENT IN THE US OR OTHER OFFSETS IN ORDER TO BALANCE THE RE-
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MAINING \$754 M OF US MILITARY ACCOUNT WITH NATO EUROPE. THIS WOULD BE ACCOMPLISHED IF ESTIMATES FOR SPENDING IN THE US (\$667 M) ARE ACTUALLY ATTAINED AND MULTILATERAL BURDENSARING PROVIDES \$87 M. (2) IF ALLIES WERE TO COVER THE REMAINING US DEFICIT

BEYOND THE \$.7 B NOW OFFERED BY THE FRG ON OFFSET, EUROPEAN NATO COUNTRIES WOULD HAVE TO DEVOTE AN ADDITIONAL 2.9 PER CENT OF AGGREGATE DEFENSE BUDGETS ABOVE CURRENT ESTIMATED SPENDING IN US IN ORDER TO FULLY OFFSET US EXPENDITURES. UNLESS SOMEONE COVERS THE US MILITARY DEFICIT BEYOND CURRENT ESTIMATES, US TROOPS ARE LIKELY TO BE CUT BY 38 PER CENT. IN THE CRITICAL NATO CENTRAL REGION, THIS COULD MEAN ABOUT A 9 PER CENT CUT IN NATO TROOPS, A 9 PER CENT CUT IN NATO TANKS, AND A 7 PER CENT CUT IN NATO TACTICAL AIRCRAFT. EUROPEAN DEFENSE BUDGETS WOULD HAVE TO INCREASE MUCH MORE THAN 2.9 PER CENT TO RESTORE THIS CAPABILITY. END SUMMARY.

1. THIS ANALYSIS OF JACKSON-NUNN BOP REQUIREMENTS CONSIDERS TWO SEPARATE APPROACHES WHICH COULD BALANCE THE FY74 US MILITARY ACCOUNT WITH NATO EUROPE: (1) THE FIRST APPROACH, WHICH ASSUMES A FULL GERMAN OFFSET, CONSIDERS WHAT WOULD BE REQUIRED OF THE OTHER EUROPEAN ALLIES TO BALANCE THEIR SHARE OF THE ACCOUNT. (2) THE SECOND APPROACH, WHICH ASSUMES THAT THE GERMAN OFFSET AGREEMENT REMAINS AT CURRENT OFFER OF \$.7 B ANNUALLY, CONSIDERS WHAT THE ALLIES, INCLUDING GERMANY, WOULD HAVE TO DO TO BALANCE THE REMAINING DEFICIT. AN ESSENTIAL INITIAL STEP IN EITHER APPROACH IS TO DETERMINE EXACTLY WHAT IS AN ACCEPTABLE OFFSET UNDER JACKSON-NUNN. WE NEED TO KNOW, AMONG OTHER THINGS, WHETHER ALLIED COMMERCIAL PURCHASES OF US MILITARY EQUIPMENT NOT UNDER GOVERNMENT-TO-GOVERNMENT AGREEMENTS WILL COUNT; WHETHER THERE WILL BE AN ALLOWANCE FOR SOME PERCENTAGE OF "FLOW-BACK" FROM US MILITARY EXPENDITURES IN EUROPE; AND WHETHER SOME SORT OF LONG TERM, NO INTEREST LOANS WILL BE ACCEPTABLE.

2. THE FIRST APPROACH, WHICH ASSUMES THAT THERE IS A FULL FRG OFFSET, LEAVES AN ESTIMATED FY74 US MILITARY BOP DEFICIT OF \$754M (WHICH AMOUNTS TO 3.8 PER CENT OF THE ESTIMATED AGGREGATE DEFENSE BUDGETS OF THE REMAINING COUNTRIES EXCLUDING FRANCE.) US ESTIMATES OF CASH RECIPITS FROM THESE COUNTRIES FOR FY 74 AMOUNTS TO \$522M, LEAVING \$232M TO BE COVERED. THE FOLLOWING TABLE PRESENTS THIS DATA:
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ESTIMATES FOR FY 74 IN \$ M

US EXPEND

DEFENSE	ENTERING	US CASH	US NET
EXPEND	BOP	RECEIPTS	BALANCE

BELGIUM-

LUXEMBOURG	1,373	50	46	-4
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DENMARK	586	37	34	-3
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GREECE	691	47	40	-7
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ITALY	4,237	142	92	-50
NETHERLANDS	2,106	69	61	- 8
NORWAY	635	10	33	PLUS 23
PORTUGAL	660	12	2	-10
TURKEY	1,043	29	12	-17
UK	8,297	358	202	-156

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WITHOUT FRG \$ 19,628 M 754 M 522M , -232 M

ESTIMATES OF DEFENSE EXPENDITURES FOR FY74 ARE DRAWN FROM COUNTRY REPLIES TO 1973 NATO DEFENSE PLANNING QUESTIONNAIRES (DPQ). ESTIMATED US EXPENDITURES ENTERING THE BOP ARE FROM THE US REPLY TO DPQ(73). LATEST AVAILABLE US ESTIMATES OF US CASH RECEIPTS ARE TAKEN FROM OSD DATA GIVEN TO DR. PRENDERGAST AT THE HAGUE NPG MEETING, 7 NOV 73.

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3. THE UK AND ITALIAN DPQ(73) REPLIES ESTIMATE EXPENDITURES IN THE US OF \$265 M AND \$174 M RESPECTIVELY. THESE INCREASES, IF CARRIED OUT AND IF QUALIFIED UNDER JACKSON-NUNN, WOULD LOWER THE US DEFICIT FROM \$232 M TO \$87 M. DURING THE TIME PERIOD ALLOWED BY JACKSON-NUNN THIS DEFICIT COULD BE COVERED BY MULTILATERAL BURDENSARING

IN THE FORM OF REDUCED US BUDGET SHARES AND NEW INFRASTRUCTURE
 AUTHORIZATIONS COVERING CERTAIN US CONSTRUCTION COSTS IN EUROPE.
 CURRENT US TARGETS IN NEGOTIATIONS IN NATO COMMITTEES PROPOSED
 BY US MISSION (BUT NOT YET APPROVED BY WASHINGTON) ARE AS FOLLOWS:

	REDUCTION US COST SHARE	REDUCTION US EXPENDITURE
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- MILITARY BUDGET	(-33 PER CENT)	13 M
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- CIVIL BUDGET	(-33 PER CENT)	2.5 M
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- INFRASTRUCTURE	(-33 PER CENT)	34 M
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-NEW INFRASTRUCTURE

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	FACILITIES FOR STATIONED FORCES	
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33 M

- PIPELINE	2.5 M
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\$85 M

4. THE SECOND APPROACH WOULD ASK THE OTHER ALLIES TO COVER THE
 REMAINING US BOP DEFICIT BEYOND THE \$.7 B CURRENTLY OFFERED BY
 THE FRG AS OFFSET. SINCE THE US MILITARY BOP EXPENDITURES IN
 GERMANY ARE ESTIMATED AT \$1,592 M, THIS WOULD MEAN A SHORTFALL
 OF \$892 M ASSUMING THAT THE ACCOUNTS WITH THE OTHER ALLIES
 WERE BALANCED AS EXPLAINED IN PARA 3. TO MAKE UP THIS SHORTFALL,
 THE ALLIES, INCLUDING GERMANY, WOULD HAVE TO DEVOTE AN ADDITIONAL
 2.9 PER CENT OF THEIR ESTIMATED AGGREGATE DEFENSE BUDGETS TO OFFSET
 ARRANGEMENTS (FRG DEFENSE SPENDING
 FOR FY74 IS ESTIMATED AT \$11,595 M IN DPQ REPLY).

5. INCREASING THE ALLIED OFFSET ARRANGEMENTS BY AN AMOUNT
 EQUAL TO 2.9 PER CENT OF DEFENSE BUDGETS WOULD HAVE THE FOLLOWING
 EFFECT WHEN APPLIED TO EACH INDIVIDUAL COUNTRY:

	PROJECTED US CASH RECEIPTS FY74	TOTAL RESULTING FROM ADDING 2.9 PER CENT OF ESTIMATED FY 74 DEFENSE EXPENDITURES	NEW RESULTING US BLANCE WITH NATO COUNTRIES
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BELGIUM- LUXEMBOURG	46	86	PLUS 36
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DENMARK	34	51	PLUS 14
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GREECE	40	64	PLUS 17
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(A)

ITALY	174	297	PLUS 155
NETHERLANDS	61	122	PLUS 53

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NORWAY	33	51	PLUS 41
PORTUGAL	2	21	PLUS 9
TURKEY	12	48	PLUS 19
UK	265 (A)	506	PLUS 148

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667	1,246	PLUS 492
FRG	700	1,036 -556

TOTAL \$ 1,367M \$ 2,282M \$ - 64 M (B)

(A) COUNTRY REPLY TO DPQ(73).

(B) TO BE COVERED BY MULTILATERAL BURDENSARING. SEE PARA 3.

6. THE \$892 M SHORTFALL (PARA 4) AMOUNTS TO 38 PER CENT OF THE TOTAL ESTIMATED US EXPENDITURES IN THE MILITARY BOP ACCOUNT WITH NATO EUROPE (LESS FRANCE) FOR FY 74. APPLYING JACKSON-NUNN, US GROUND FORCES IN EUROPE WOULD HAVE TO BE CUT 38 PER CENT. FOR ILLUSTRATIVE PURPOSES ONLY, THIS COULD MEAN THAT IN THE CRITICAL CENTRAL REGION OF NATO US GROUND FORCES WOULD HAVE TO BE REDUCED FROM 193,000 TO 119,660. ASSUMING THAT PROPORTIONATE REDUCTIONS WERE MADE IN US EQUIPMENT, US TANKS WOULD BE REDUCED FROM 1400 TO 868 AND IN US IN-PLACE AIRCRAFT FROM 500 TO 310. THESE REDUCTIONS WOULD MEAN A CUT IN OVERALL NATO STRENGTH IN THE CENTRAL REGION OF 9 PER CENT IN GROUND FORCES, 9 PER CENT IN TANKS AND 7 PER CENT IN AIRCRAFT. EUROPEAN DEFENSE BUDGETS WOULD HAVE TO BE INCREASED BY MUCH MORE THAN 2.9 PER CENT TO RESTORE THIS CAPABILITY.

7. THIS ANALYSIS PRESUMES THAT NO HELP WILL BE FORTHCOMING FROM FRANCE OR CANADA IN MEETING US BOP DEFICIT IN EUROPE EXCEPT POSSIBLE THROUGH ASSUMING INCREASED SHARE IN NATO BUDGETS. IT
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ALSO ASSUMES THAT ITALIAN AND UK DPQ ESTIMATES OF THEIR DEFENSE
SPENDING IN US WILL BE MET AND WILL QUALIFY AS OFFSETTING
PAYMENTS UNDER JACKSON-NUNN. (THROUGHOUT THIS MESSAGE WE HAVE
UTILIZED OFFICIAL PARITIES (EXCHANGE RATES) IN FORCE IN FEB 73
(SEE ISM(73)7.)).
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